U.S. House of Representatives
Committee on Natural Resources
Washington, DC 20515

November 21, 2011

Jack N. Gerard
President and CEO
American Petroleum Institute
1220 L Street, NW
Washington, DC 20005-4070

Dear Mr. Gerard:

As Ranking Member of the House Natural Resources Committee, I write to inquire about the American Petroleum Institute's advertising campaign claiming the oil and gas industry will add one million new jobs by 2018 if more territory, both onshore and offshore, is opened up for oil and gas development. API also claims the Obama administration's plan to eliminate the industry's multi-billion dollar tax subsidies will, by 2020, cause 48,000 Americans to lose their jobs and *reduce* government revenue by $29 billion.[1]

These claims are sourced to two API-funded studies by the consulting firm Wood Mackenzie, whose chief clients include oil and gas companies.[2] However, the job figures appear to be sharply at odds with the official jobs statistics compiled by the authoritative Bureau of Labor Statistics, an independent statistical agency charged with measuring U.S. labor market activity, and the Congressional Budget Office has found the administration's plan to eliminate oil and gas tax subsidies would add, not subtract, $41 billion in federal revenue over the next 10 years. In order to evaluate the claims made by API's ad campaign and the discrepancies between your data and that of the BLS, CBO, and other independent evaluators, I ask that you please respond to the following questions:

1. Almost 165,000 Americans work in oil and gas occupations, according to the Bureau of Labor Statistics. "With more than 25 million Americans unemployed or underemployed, it's unlikely that any changes in that part of the energy sector would

[1] See http://www.api.org/policy/tax/upload/API_Choice_Chart_v5.pdf.
[2] The studies can be found at http://www.api.org/newsroom/upload/API-US_Supply_Economic_Forecast.pdf and http://www.api.org/policy/tax/recentstudiesandresearch/upload/SOAE_Wood_Mackenzie_Access_vs_Taxes.pdf.

make a real dent," according to a Nov. 3 analysis in the *New York Times Magazine*.[3] However, API's advertisements seem to be saying that the industry will add an average of more than *140,000 U.S. jobs a year* for the next six years if we follow API's policy recipe. Leave aside the accuracy of the Wood Mackenzie study for a moment. Isn't it true that the study does not actually say the oil and gas industry will hire this many people (the study's estimates fall under the category "jobs supported" not "jobs created")? Yet won't your ads give viewers the false impression that this is the case? How is it possible to see your message any other way?

2. While API promises one million new jobs by 2018, the Bureau of Labor Statistics projects job losses. "New drilling and extraction techniques allow for more efficient production from a reduced number of drill sites," BLS reports in its Career Guide to Industries, 2010-11 Edition. "As a result, employment in oil and gas extraction is expected to decline by 16 percent through 2018."[4] BLS predicts a host of oil and gas jobs will "decline rapidly," including derrick operators, extraction workers, drill operators, and roustabouts who assemble or repair oil field equipment.[5] Does API reject BLS's conclusions? And if so, why?

3. The American people have rejected expanded oil and gas development in many of the areas API wants opened. Areas such as the Arctic National Wildlife Refuge are considered national treasures. Extensive drilling off the Florida and California coasts has been considered too risky and potentially disruptive to state tourism and other businesses. And the Department of Defense is worried that up to 78 percent of an API-backed lease sale off Virginia's coast would conflict with Naval training activities.[6] Nonetheless, BLS notes that opening currently protected areas to exploration and drilling could potentially boost employment in the sector. Yet for API's claims to be true, jobs created from expanded access would have to not only offset but significantly exceed the BLS-projected job losses due to technological advances and depleted resources elsewhere. Do the Wood Mackenzie estimates incorporate the job losses projected by BLS, which are expected to occur whether access is expanded or not? If not, why not?

4. The Wood Mackenzie study predicts expanded access to onshore and offshore resources will create jobs that have little or nothing to do with oil and gas. As explained in an Oct. 10 *Washington Post* article, "[M]any economists say that the API has exaggerated the

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[3] Adam Davidson, "Can Anyone Really Create Jobs?", *New York Times Magazine* (Nov. 3, 2011).
[4] U.S. Bureau of Labor Statistics, *Career Guide to Industries, 2010-11 Edition*, Mining, available at http://data.bls.gov/cgi-bin/print.pl/oco/cg/cgs004.htm.
[5] U.S. Bureau of Labor Statistics, *Occupational Outlook Handbook, 2010-11 Edition*, Construction and Extraction Occupations, available at http://data.bls.gov/cgi-bin/print.pl/oco/oco20057.htm.
[6] Department of Defense, Office of the Deputy Under Secretary of Defense for Readiness, Office of the Deputy Under Secretary of Defense for Installations and Environment, and Office of the Director, Operational Test and Evaluation, Outer *Continental Shelf (OCS): Military Activities & Future Oil and Gas Development* (2010); and Rosalind S. Helderman, "Oil Drilling Off Virginia's Shore Would Conflict with Military, Defense Study Says," *Washington Post*, May 19, 2010.

number of jobs linked to the oil and gas industry by including direct and indirect jobs (such as steel suppliers), and a seldom-used category known as 'induced' jobs that API says covers everything from valets to day-care providers, from librarians to rocket scientists."[7] An Oct. 20 *Post* "Fact Checker" article gave a Republican Senator three out of four Pinocchios for claiming the GOP's job plan would create five million new jobs.[8] The *Post* faulted the Senator for relying on API's Wood Mackenzie study. Is it true that the study's jobs estimates include "everything from valets to day-care providers, from librarians to rocket scientists"?

5. The Oct. 10 *Post* story also reports that, in the Wood Mackenzie study, gas station and convenience store cashiers, who typically earn less than $9 an hour, make up "the single biggest category of people working directly for the petroleum industry." Is this true? How many and what percentage of the study's expected new jobs are low-wage jobs?

6. The Wood Mackenzie direct jobs estimates were determined by "multiplying the number of each discrete activity per annum by the number of direct jobs per activity."[9] This seems to imply that Wood Mackenzie is assuming jobs created are permanent and persistent. In other words, Wood Mackenzie assumes any job created in 2012 still exists in 2018 and every year in between (and beyond[10]). However, there will likely be job losses as certain activities are completed, such as building new rigs. The Wood Mackenzie model also does not appear to account for labor and capital constraints that can slow or dampen job creation. Wood Mackenzie's estimates show immediate and significant job increases, but it takes time to find, often relocate, and train workers for the more technical and better paid positions the study says will be created. If these jobs become available, a significant share of the workers will by necessity come from the ranks of the already skilled and already employed—the net for overall employment may be quite small, especially in a six-year time period. Greater demand for workers with the appropriate skills also means higher labor costs, which could cause industry to scale back and hire fewer workers than Wood Mackenzie projects. The apparent failure to account for such factors significantly inflates the estimated total for direct jobs, which is only magnified by Wood Mackenzie's use of multipliers to calculate indirect and induced jobs. Is it true that the Wood Mackenzie model assumes that a job created in 2012 persists to 2018 and beyond? And is it true that the model does not account for labor and capital constraints? If untrue, what methods are used?

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[7] Steven Mufson and Jia Lynn Yang, "Companies Use Fuzzy Math in Jobs Claims; Candidates Still Buy In," *Washington Post*, Oct. 10, 2011.
[8] Glenn Kessler, "The GOP's Ludicrous Claim About Their Jobs Bill," *Washington Post*, Oct. 20, 2011.
[9] See page 19 of the study at http://www.api.org/newsroom/upload/API-US_Supply_Economic_Forecast.pdf.
[10] Although API's advertising campaign highlights "one million new jobs" by 2018, the Wood Mackenzie study actually gives estimates to 2030. So, it appears, not only is a job created in 2012 expected to persist to 2018, but also to 2030.

7. In 2010, domestic oil production reached its highest level in seven years,[11] and domestic natural gas production hit an all-time high.[12] Yet even as oil prices surged to $100 a barrel and profits climbed to record levels, the Big Five oil companies shed jobs.[13] ExxonMobil, Shell, and BP combined to reduce their U.S. workforces by 17,500 jobs between 2005 and 2010.[14] Chevron's U.S. workforce peaked in 2008 but since then has been reduced by 2,000 jobs. And ConocoPhillips, which does not report U.S. job numbers, reduced its global workforce by 5,900 jobs; the other four companies also are reducing their global workforces, suggesting factors other than U.S. policy are at play. Isn't it true that oil and gas development has become less labor intensive, requiring fewer workers, as the industry has advanced? Don't the last several years provide more evidence supporting BLS's forecasts than Wood Mackenzie's?

8. Oil and gas companies submit no bids on most offshore leases offered for sale. In the past 10 Gulf of Mexico lease sales, dating back to August 2005, more than 39,000 blocks totaling almost 211 million acres were offered. Of these, just over 3,600 (totaling almost 20 million acres) received bids—not even 10 percent of the blocks offered.[15] Moreover, companies often sit on their leases for years and do not engage in immediate development. The Wood Mackenzie study assumes the industry will immediately develop an immense area of newly opened onshore and offshore resources—as noted, API's advertisements promise more than one million new jobs in just six years. Wood Mackenzie estimates this will achieve a whopping 76 percent increase in domestic oil and gas production by 2030. What makes API think that the industry will want to ramp up and be able to ramp up so quickly when the industry is not currently developing all available resources? Wouldn't such a dramatic increase in supply drive down prices and make it uneconomical for oil and gas companies to develop many of the areas API wants opened? Is this possibility factored into the Wood Mackenzie study?

9. As noted above, API claims that eliminating oil and gas tax subsidies will *reduce* government revenue by $29 billion by 2020. This is at odds with findings from neutral budget evaluators. The Congressional Budget Office and the Congressional Joint Committee on Taxation concluded that "reducing tax preferences for the production of fossil fuels" would generate $41 billion in federal revenues over 10 years.[16] The Congressional Research Service also concluded that eliminating five of these preferences

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[11] U.S. Energy Information Administration, data on "Crude Oil Production," available at http://www.eia.gov/dnav/pet/PET_CRD_CRPDN_ADC_MBBL_A.htm.

[12] Statement of Howard Gruenspecht, Acting Administrator of the Energy Information Administration, before the U.S. Senate Committee on Energy and Natural Resources, July 19, 2011, available at http://www.eia.gov/pressroom/testimonies/howard_07192011.pdf.

[13] The data that follows is based on annual reports and filings available on company websites.

[14] This excludes ExxonMobil's acquisition of XTO Energy.

[15] For data, see http://www.gomr.boemre.gov/homepg/lsesale/swiler/Table_2.PDF.

[16] Congressional Budget Office, *An Analysis of the President's Budgetary Proposals for Fiscal Year 2012*, page 9 (April 2011), available at http://www.cbo.gov/ftpdocs/121xx/doc12130/04-15-AnalysisPresidentsBudget.pdf.

would generate about $1.2 billion in 2012 from the Big Five oil companies, whose net after-tax incomes totaled more than $76 billion in 2010.[17] CRS further noted that with "the current price over $100 per barrel, prices are well in excess of costs and a small increase in taxes would be less likely to reduce oil output, and hence increase petroleum product (gasoline) prices." How does API explain the fact that your claims are contradicted by independent evaluators? Why should the American people trust the self-interested claims of API over the neutral Congressional Budget Office, Joint Committee on Taxation, and Congressional Research Service?

10. Were the Wood Mackenzie studies subjected to peer review and independent verification? If so, please list all independent reviewers and explain the process used to conduct such review for each study. If not, why should we trust studies that produced the results the self-interested sponsor—API—was looking for?

11. API is a supporter of the Data Quality Act, which seeks to ensure and maximize the "quality, objectivity, utility, and integrity of information (including statistical information) disseminated by Federal agencies." OMB's guidance for implementing the Act directs that influential statistical information "include a high degree of transparency about data and methods to facilitate the reproducibility of such information by qualified third parties." To ensure the American people are not being misled by API's multi-million dollar ad campaign, I believe the Wood Mackenzie estimates likewise should be publicly transparent and reproducible. Are you willing to make all of your data and methodological tools and assumptions available for review, such that Wood Mackenzie's results can be reproduced by qualified third parties? If so, please provide a contact person to work with Minority Staff on transferring this information to the Committee Minority. If not, why not?

Thank you for your assistance in responding to this inquiry. I ask that you please respond by December 1, 2011. Should you have any questions, please contact Reece Rushing of the House Natural Resources Committee Democratic staff at 202-226-4627.

Sincerely,

Edward J. Markey

Edward J. Markey
Ranking Member
Committee on Natural Resources

[17] Congressional Research Service, Memorandum to the Honorable Harry M. Reid on "Tax Policy and Gasoline Prices" (May 11, 2011), available at http://democrats.senate.gov/pdfs/20110511-crs-analysis-on-gas-prices.pdf.